

The effect of audit firm tenure in artificial rotation on audit quality

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ABSTRACT

This study aimed to examine the effect of auditor tenure in artificial rotation on audit quality. Tenure shows the relationship between the audit firms and a client that is measured in years. Artificial rotation of auditor (audit firm) indicates a condition that, conceptually, there has been a change of auditors leading to the auditor relationship with the client to be disconnected, whereas substantive auditor-client relationship is ongoing. Formally, the auditor does not violate the rules and is still able to audit for the same client. Yet, in the long-term, it could affect the audit quality. The longer auditor tenure, the closer auditor-client relationship is. Thus, the auditor accommodates the interests of the client at the client's financial statements, including the practice of discretionary accruals as a proxy for audit quality. The samples were selected by purposive sampling method of the companies listed in Indonesia Stock Exchange from the year 2002-2010, with multiple linear regression approach. It shows that tenure, and total assets do not affect the quality of the audit while the size of the audit firm, and debt statistically have significant effect on audit quality. Future studies may extend the period of observation, and using other audit quality measures, such as fraud, and the propensity of auditor to issue going concern opinion..

ABSTRAK

Penelitian ini bertujuan untuk menguji pengaruh tenur auditor dalam rotasi artifisial pada kualitas audit. Tenur menunjukkan hubungan antara KAP dengan klien yang diukur dalam tahun. Rotasi artifisial auditor (KAP) menunjukkan suatu kondisi bahwa secara konseptual telah terjadi pergantian auditor yang menyebabkan hubungan auditor dengan klien terputus, padahal secara substantif hubungan auditor-klien masih tetap berlangsung. Secara formal, auditor tidak melanggar aturan dan masih dapat memeriksa klien yang sama, namun jangka panjang, diduga dapat mempengaruhi kualitas audit. Semakin panjang tenur auditor, diduga hubungan auditor-klien semakin dekat, sehingga auditor mengakomodasi kepentingan klien atas laporan keuangan klien, termasuk praktik akrual diskresioner sebagai proksi kualitas audit. Sampel dipilih dengan metode purposive sampling dari perusahaan yang terdaftar di Bursa Efek Indonesia dari tahun 2002-2010, dengan pendekatan regresi linier berganda. Hasil uji statistik menunjukkan bahwa tenur, dan total aset tidak mempengaruhi kualitas audit. Sedangkan ukuran KAP, dan utang berpengaruh signifikan secara statistik terhadap kualitas audit. Penelitian ini diharapkan dapat memberikan kontribusi yang berkaitan dengan pengaturan rotasi auditor. Penelitian selanjutnya dapat memperpanjang periode pengamatan, dan menggunakan ukuran kualitas audit lainnya, misalnya fraud, dan kecenderungan pemberian opini going concern.

1. INTRODUCTION

Not many empirical studies uncover the effect of auditor tenure in artificial rotation on audit quality. However, the auditor should be aware of various things affecting their attitudes and thus slowly but

surely erode their independence (Mautz and Sharaf 1961). The longer the auditor-client relationship, concerns have been in over familiarity. Therefore, it will be more dangerous when the auditor accommodates the client on the client's financial state-

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ments, including the practice of discretionary accruals.

The Government of the Republic of Indonesia issued a regulation by the finance ministry in KMK 423/KMK.06/2002 which was amended by the KMK 359/KMK.06/2003. In this rule stated that the the provision of public services for the client's financial statements conducted by audit firm for the longest five consecutive years and by a maximum of partners for three consecutive years. Furthermore, the regulation renewed through PMK 17/PMK.01/2008. The regulation states that the the provision of services of general audit of financial statements conducted by the auditor longest for 6 consecutive years, and the oldest partner for 3 consecutive years. This regulation was issued by the government for the purpose of maintaining audit quality.

Despite five years, audit firm can still be run on a client assignment, with no breaking the rules of the finance minister. This is done by the audit firm to change the name during the first assignment. Therefore, they can continue during the next assignment. Formally, the audit firm does not violate the rules and still be able to run on a client assignment. Although formally in the assignment period has been a change of audit firm with their rotation, substantively the relationship between client-audit firms was maintained. This phenomenon indicates artificial rotation. Rotation artificially was done by simply changing the name of audit firm. Although an audit firm rotation has made appropriate government regulation, but the audit firm just renamed, or is affiliated with a foreign firm audit the same, so that substantially no rotation occurs. Therefore, the rotation is only to abort an obligation, and not as to maintain audit quality.

This study aimed to examine the effect of auditor tenure on artificial rotation on audit quality. Although previous research has artifacts that uncover the effect of tenure on audit quality, they did not consider the phenomenon of artificial rotation in Indonesia. The phenomenon of artificial rotation suggests that the auditor essentially do not want to lose clients, because it will have an impact on income audit firm. In this study, the term audit firm shows the auditor, and the two terms will be used interchangeably. Auditor tenure shows the auditor-client relationships are measured in years (Geiger and Raghunandan 2002, Myers et al. 2003, Mansi et al. 2004, Ghosh and Moon 2005). Although there have been clear rules on auditor rotation, but the auditor can audit the same client, although the limit auditor-client engagement period had expired.

Audit quality is important for users of financial statements because it has a role in providing assurance on financial performance and accountability. Audit quality is the probability that the financial statements contain material errors and auditors will find and report errors such material (DeAngelo 1981b). Causes of poor quality audit can not be separated from the bad auditor independence decline. Statement on Auditing Standards 1 states that in all matters relating to the engagement, independence in mental attitude must be maintained by the auditor (IAPI 2010). The independence has reduced as it is suspected as the cause of the poor quality of audited financial statements.

Long-term relationship between the auditor-clients can reduce the independence of auditors. If the two parties engage intensively, feared auditors will decrease the level of independence. Auditors should have been able to detect the cause of the poor quality of financial reporting, the auditor will but it will seek to secure the practice, because there is a very close relationship with the client. Therefore, the rotation of audit is expected to maintain audit quality by limiting the tenure of the auditor-client.

There are inconsistencies in the results of previous research on the effect of tenure on discretionary accruals. For example, Davis, Soo, and Trompeter (2009) found that a long tenure positively and negatively related to audit quality. Mansi, Maxwell, and Miller (2004) found a significant negative relationship between tenure with the cost of corporate bond. Chen, Lin, and Lin (2005) use the performance-adjusted discretionary accruals as a proxy for earnings quality; they found that the absolute value and positive discretionary accruals decreased significantly with the audit partner tenure. After controlling for tenure, they found that the absolute discretionary accruals decreased significantly with auditor tenure. Al-Thuneibat et al. (2011) found that the auditor tenure negatively affect audit quality, where the length of tenure, the higher the magnitude of discretionary accruals. Carey and Simnett (2006) states that there is no significant relationship between audit partner tenure with discretionary accruals. Junaidi et al. (2012) showed that there is a negative effect of tenure on audit quality as measured by the propensity of the auditor issued a going concern opinion.

Myers et al. (2003), Ghosh and Moon (2005) and Meutia (2004) explain different results of research Carey and Simnett (2006), Davis et al. (2009), Chen et al. (2005) and Al-Thuneibat et al. (2011). Myers et al. (2003) conducted a similar study, and

showed the longer tenure auditor then the higher earnings quality. Ghosh and Moon (2005) research results indicate that the audited financial statements, particularly the earnings report, it is accountable for longer auditor tenure. Meutia (2004) result explains that the auditor tenure will reduce the level of earnings management.

2. THEORETICAL FRAMEWORK, AND HYPOTHESIS

Audit Firm Tenure

Tenure as a term of the auditor-client relationship is the length of the contract auditors working in the same client. The Government of the Republic of Indonesia issued a regulation by the finance ministry in KMK 423/KMK.06/2002 which was amended by KMK359/KMK.06/2003, which was renewed again through PMK 17/PMK.01/2008 on audit firm noted that the the provision of audit services common to the financial statements of an entity carried out by audit firm a maximum of six consecutive years, and by a partner at the latest three financial years consecutive. Audit firm and the partner can receive public audit services, after one year did not audit the client.

The longer the auditor is assigned by the client relationship, as it may affect the level of auditor independence. Longer auditor tenure is very likely to be associated with reduced alertness auditors through overfamiliarity with clients (Mautz and Sharaf 1961). In addition, long auditor tenure can create economic incentives for becoming less independent auditors, in this case that the auditor may agree to the demands of clients in order to continue to secure the future of audit fees (Hoyle 1978). The longer the auditor-client relationship will lead to dependency between the two sides. Auditor depends on the client that has been a source of income. For that reason, when it does not give an opinion in accordance with the wishes of the client, then the client is feared will move to other auditors. In a report issued by the SEC (Section Executive Committee) in 1992, mentioned several arguments regarding the auditor tenure. This argument states that the long-term relationship between the auditor-client will cause problems as follows.

1. The closeness of the relationship between the auditor-client creates a feeling of empathy with the client, thus causing doubts in the auditor's opinion on the issue giving the client and the auditor will lose professional skepticism.
2. The auditor looked examination of the client as a repetition of a previous relationship that has existed with the same client. This will cause the

auditor to anticipate the results, rather than evaluating the important changes that exist on the client.

3. The auditor is to maintain a relationship that has been established with the client, and to prioritize the wishes of the client, rather than following the existing professional standards.

When the auditor-client relationship has taken place for years, the client can be seen as an ongoing source of revenue that could potentially reduce the independence of auditors. In this case, Sinason et al. (2001) argue that the auditor conducting an audit assignment by the client, where the assignment of more than three consecutive years, the auditor is more at risk of losing its independence compared to the auditors who carry out audits of less than three years. Long tenure between client-auditor can affect the independence of the auditor.

Independence

Independence is the attitude of someone who is characterized by integrity and objectivity professional duties. According to the American Institute of Certified Public Accountants (AICPA), independence is an ability to act based on the integrity and objectivity. Although integrity and objectivity can not be measured with certainty, they are fundamental for the public accountant profession.

The independence (IAPI 2010) is not easily influenced, because the auditor implements it in public interest (differentiated in terms of practice as an auditor internal auditor). Therefore, the auditor is not justified as favor of the interests of anyone, because however perfect the technical expertise that auditors have, the auditor will lose impartiality, which was very important for his opinion.

The independence is related to the ability to act objectively and with integrity. This can only be done by a person who psychologically has high intellectual honesty. Therefore, independence is a state of mind. This assessment may be limited to appearance, the way and the work undertaken by public accountants, as it looks from the outside is appearance. So that for practical purposes a public accountant must be free from relationships that have the potential to cause bias in giving opinions. Audit quality depends on the public's perception of auditor independence owned. The independence of the audit means taking an unbiased viewpoint in the audit test, evaluation results of the audit and audit reporting.

Many factors can affect the independence of the auditor. According Barizah et al. (2005), there are at least six factors influence the auditor's inde-

pendence. These factors are as follows.

1. The size of the audit firm size, DeAngelo (1981b) found a positive relationship between the size of the audit firm with auditor independence. This means that the bigger the size of the audit firm, the higher its independence.
2. The level of competition among audit firms in providing services to clients, namely the hope would like to serve clients with both the independence will decline.
3. Tenure affects the independence, because the longer the auditor independence level will decrease.
4. The cost of audit services, the fees received by the firm if the greater the level of independence will decrease.
5. Managerial consulting services, independence is negatively affected by additional services such managerial suggestions given by an auditor to audit clients.
6. The existence of an audit committee at the client company, a lot of support which suggested the existence of a positive relationship between the audit committee independence.

Audit Quality

DeAngelo (1981) defines an audit quality as the probability that the auditor discovered and reported on the existence of a breach in the client accounting system. The probability of finding an infringement depends on the technical capabilities of the auditor and the auditor's independence. Audit quality is the probability that the auditor will report to the audit report for the unqualified financial statements contain material misstatements (Lee et al. 1999). Audit quality is determined by the ability of the audit to reduce noise and bias and increase the purity of accounting data (Wallace 1980 in Watkins et al. 2004).

Coram et al. (2008) stated that audit quality is what the odds of auditors find any unintentional or intentional error of the company's financial statements, as well as how likely these findings are reported and included in the audit opinion. Audit quality depends on the ability of auditors are represented in technical and professional education experience, and auditor independence in maintaining mental attitude. Furthermore, Peecher and Piercey (2008) state audit quality as the probability of an auditor discovered and reported violations in the client accounting system. The probability of finding an infringement depends on the technical capabilities of the auditor and the auditor's independence.

Audit Quality Measurement

Research on audit quality has been in short time so that a lot of research that applies some calculation methods of audit quality measurements uses ABDAC value. Calculation of ABDAC consists of several ways of calculation used. According to research conducted by Matis (2010) calculations on ABDAC there are a variety of ways. The calculation of this ABDAC obtained based on the Model Jones (1991) with the following steps.

$$ACCR_{it} = \Delta CA_{it} - \Delta CL_{it} - \Delta Cash_{it} + \Delta STDEBT_{it} + DEPTN_{it} \quad (1)$$

Notation:

$ACCR_{it}$ = total accruals for firm i period t

ΔCA_{it} = change in current assets of firm i during period t

ΔCL_{it} = change in current liabilities during period t firm i

$\Delta Cash_{it}$ = change in cash and cash equivalents during period t firm i

$\Delta STDEBT_{it}$ = change in the balance of the company's long-term obligations that have matured i in period t .

$\Delta DEPTN_{it}$ = depreciation and amortization expense for firm i period t .

Further use is to seek total accruals is as follows.

$$ACCR_{it} = EBXT_{it} - CFO_{it} \quad (2)$$

Notation:

$EBXT_{it}$ = earnings before extraordinary items, discontinued operations for the period t .

FO_{it} = operating cash flow for period t firm i

Further, according to Siregar and Utama (2006), to decompose total accruals into discretionary and non discretionary component then there are a variety of ways: 1. It uses the Jones Model (1991); 2. Using the Model Dechow (1995); 3. It uses the Model Kasznik (1999); 4. Using the Model Dechow (2002). These models will be discussed as follows:

1. Model of Jones (1991)

This model was first developed by Jones who used to decompose total accruals with the following models:

$$ACCR_{it} = \beta_1 + \beta_2 \Delta REV_{it} + \beta_3 PPE_{it} + E \quad (3)$$

Notation:

$ACCR_{it}$ = total accruals for firm i period t

ΔREV_{it} = change in revenue for the company i for year t .

PPE_{it} = fixed assets of the company in period t

2. Model of Dechow (1995)

Dechow (1995) include ΔREC_{it} which is a change in receivables for firm i for year t , ΔREC_{it} it used to be a deduction from ΔREV_{it} , so that the model is as

follows.

$$ACCR_{it} = \beta_1 + \beta_2(\Delta REV_{it} - \Delta REC_{it}) + \beta_3PPE_{it} + E \quad (4)$$

3. Model of Kasznik (1999)

Model Kasznik (1999) include ΔCFO_{it} which is a change in cash flow from operating activities for firm i for year t . So that the model is as follows.

$$ACCR_{it} = \beta_1 + \beta_2(\Delta REV_{it} - \Delta REC_{it}) + \beta_3PPE_{it} + \beta_4\Delta CFO_{it} + E \quad (5)$$

4. Model of Dechow (2002)

Dechow (2002) modify the model to decompose total accruals as follows.

$$ACCR_{it} = \beta_1 + \beta_2(\Delta REV_{it} - (1-k) \Delta REC_{it}) + \beta_3PPE_{it} + \beta_4ACCR_{it-1} + \beta_5\Delta REV_{it-1} + E \quad (6)$$

Notation:

K = slope of the regression coefficient of ΔREV_{it}
 ΔREC_{it}

$ACCR_{it-1}$ = $t-1$ total accruals divided by total assets $t-2$

ΔREV_{it-1} = Change in revenue from year t to $t+1$, with revenues in year t $((REV_{t+1} - REV_t)/REV_t)$.

The variables in the model are divided by total assets in period $t-1$. After the decomposition of total accruals, the DAC (discretionary accrual) is estimated as follows:

$$DAC_{it} = ACCR_{it} / TA_{i,t-1} - NDA_{it} \quad (7)$$

This study uses a model approach from Kasznik. The Kasznik model is a modification of the Jones model that is considered better because it has a higher adjusted R^2 values than other models of computation.

Hypothesis

Davis et al. (2009) studied the relationship between the length of auditor tenure and earnings management level. Specifically, they conducted a study between duration and magnitude ABDAC auditor tenure and forecast. Forecast error is defined as actual earnings minus analyst forecast earnings. The results of this study indicate a positive relationship between auditor tenure and ABDAC. While the relationship auditor tenure and forecast error is negative which means that the longer auditor tenure is smaller forecast error? This suggests that firms are increasingly able to meet earnings forecasts that have been determined.

Johnson et al. (2002) tested the tenure with the quality of financial reporting. Their study used two variables proxy for the quality of financial reports and a sample that uses the big-six audit firm. The results of this study found a significant relationship to the length of tenure of four to eight years, and the long tenure of two to three years related to the low quality of reporting. They found no evidence that reducing the quality of financial reporting for

more than nine years of tenure.

Myers et al. (2003) examined the relationship between auditor tenure and earnings quality that is represented by ABDAC. Myers et al. (2003) found that the longer auditor tenure, the quality of higher earnings. Gosh and Moon (2005) examine whether auditor tenure and audit quality or affect the perception of audit quality. Researchers used two measures as a proxy for the quality of the first audit, quality audit through accrual accounting. The second measure for audit quality is the investor's perception of audit quality as represented by the earnings response coefficient (ERC). The results showed decreased levels of discretionary accruals as auditor tenure increases. Test results on investor perceptions also show results where the investor perception of audit quality, the better, with increasing auditor tenure. Collectively, it can be concluded that it leads to better audit quality by increasing auditor tenure.

Meutia (2004) tested the effects of auditor independence on the relationship between audit quality and earnings management. Independence is measured by the non audit services and auditor tenure. The sample consisted of 131 companies listing on the Indonesia Stock Exchange the period 1998 to 2001. It uses measure of the quality audit is the auditor size as a proxy. Beside, the correlation analysis is used to examine the relationship between audit quality and ABDAC, and auditor independence variable is moderating variables. It showed a negative relationship between audit quality and ABDAC.

When related to the size of the independence, researchers conducted tests use independent t -test to see if there is a difference between the level of discretionary accruals before and after three years. Test results showed that non-audit services increases the value ABDAC, and auditor tenure lowers the value ABDAC.

H0: Audit firm tenure does not significantly affect the audit quality.

3. RESEARCH METHOD

Population and Sample

The population in this study is a company listed on the Indonesia Stock Exchange from 2002 to 2010. The sample was selected by purposive sampling method. The criteria used to select the sample are as follows:

1. The financial industry including insurance was not chosen because it has a specific form of financial statements and different from other industries. Different financial statements require special meth-

ods in the calculation of discretionary accrual.

2. The financial statements of the company chosen is a report that has a full accrual information for the years in which the same audit firm that is still used.

3. The financial statements have selected is substantively reports audited by the same auditor least six consecutive years.

Operational Definition

Dependent Variable

Dependent variable is audit quality as measured by ABDAC with Kasznik model approach. Kasznik model is a modification of the Jones model has an adjusted R2 is higher than the other model calculations. Therefore, this model so it is considered better than other calculation models, with the following stages.

1. Calculate the total accrual

In the financial statements, the accrual basis is used to prepare the balance sheet and income statement, while the cash flow statement prepared using the cash basis. On the basis that there are two things in computing the total income accrued and the balance sheet approach to cash flow approach. Total balance sheet approach is the calculation of accruals under the assumption of changes in working capital accounts in the balance sheet, with the accrual component is applied to the revenue and expense accounts on the income statement in accordance with equation 1. Then, it looks for $ACCR_{it}$ (Tottal Accrual) according to equation 2.

2. Measurement of descretionary accrual (DAC) and non descretionary accrual (NDA)

Jones model as modified by Kasznik can separate total accruals into non discretionary (NDA) and discretionary accruals (DAC). Jones Model is intended to calculate the expected accrual occurs along with the change in the company's operational activities (NDA). The difference between total accruals and NDA is the absolute value of DAC which is a proxy of audit quality.

The first thing required to be able to calculate the NDA is seeking coefficient β_1 , β_2 , and β_3 by using equation 5. All variables are divided by total assets of the previous year, then the equation becomes as follows.

$$ACCR_{it}/Ta_{i,t-1} = \beta_1(1/Ta_{i,t-1}) + \beta_2(\Delta REV_{it} - \Delta REC_{it}) / Ta_{i,t-1} + \beta_3(PPE_{it}) / Ta_{i,t-1} + \beta_4(\Delta CFO_{it}) / Ta_{i,t-1} + E \quad (8)$$

Notation:

$ACCR_{it}/Ta_{i,t-1}$ = total accruals for firm i at end of year t

$Ta_{i,t-1}$ = total assets for firm i at end of year $t-1$

$\Delta REV_{it}/Ta_{i,t-1}$ = change in revenue for the company i for year t , divided by total assets for firms i at the

end of year $t-1$

$\Delta REC_{it} Ta_{i,t-1}$ = change in receivables for firm i for year t , divided by total assets for firm i at end of year $t-1$

$\Delta CFO_{it} Ta_{i,t-1}$ = change in cash flow from operating activities for firm i for year t , divided by total assets for firms i at the end of year $t-1$

$PPE_{it} Ta_{i,t-1}$ = fixed assets firm i in period t divided by total assets of firm i in period $t-1$.

The next coefficient obtained from regression equations is included in the following equation to get the NDA_{it} :

$$NDA_{it} = \beta_1(1/Ta_{i,t-1}) + \beta_2(\Delta REV_{it} - \Delta REC_{it}) / Ta_{i,t-1} + \beta_3(PPE_{it}) / Ta_{i,t-1} + \beta_4(\Delta CFO_{it}) / Ta_{i,t-1} + E \quad (9)$$

Furthermore, DAC can be estimated according to equation 7 and then look for the absolute numbers of DAC, which can be found ABDAC.

Independent Variable

In this study, the independent variable is tenure. Tenure is calculated using the number of years the company has ties to the same audit firm.

The Control Variables

Assets

We control the size of the client using the natural log of total assets to eliminate the effect of firm size because large firms are shown to have accrued a larger and more stable (Dechow and Dichev 2002, Al-Thuneibat et al. 2010).

Debt

DEBT variables were included because based on the debt covenant hypotheses predict that managers want to increase profits and assets to reduce debt contract renegotiation costs when a company decides its debt agreements. Unlike existing investors, creditors do not have a mechanism to increase their profits. However, creditors are protected by a conservative accounting standard that further increases if the ratio of debt the company will likely try to improve the procedure reported earnings.

$$DER = \frac{TotalLiability}{TotalAsset} \quad (10)$$

Audtype

This variable is a dummy variable that auditors affiliated with the Big Four auditors (Deloitte, Ernst & Young, KPMG, Pricewaterhousecoopers) given the value of 1, and is not affiliated with the big four are given a value of 0. DeAngelo (1981) states that the auditors are included big eight have higher audit quality. Therefore, the auditor size is often used as a proxy of some previous studies on audit quality.

Table 1
Sample Selection

Description	Amount
The number of companies listed on the Stock Exchange	424
Companies that do not include manufacturing	(289)
Companies that did not complete its financial statement	(74)
Samples with tenure ≥ 6 years	61

Table 2
Sample Distribution by Type of Manufacturing

The Manufacturing	Total	Percent
Processing agricultural output	8	13%
Mining processing	5	8%
Basic industry and chemical	20	33%
Heavy industry	17	28%
The food industry	11	18%
Amount	61	100%

This is not surprising because it has a big four auditor competence of human resources, facilities, and experience which allows providing a higher quality than non big four. Meutia (2004) concluded that the clients of the big four audit firm has ABDAC low levels, while clients of non big four will have a high level of ABDAC. Meutia (2004) concluded that the relationship between audit qualities by ABDAC is negative. This means that the higher the quality of the audit, the lower the level ABDAC.

Model

Regression model used in this study is as follows:

$$ABDAC = a + \beta_1 tenure + \beta_2 audtype + \beta_3 assets + \beta_4 debt + e \quad (11)$$

Statistical tests are used to test the hypotheses is multiple linear regression analysis with 95% confidence level. In testing the regression model will be presented in descriptive statistics, classical assumption test and F test and *t* test. The influence of independent variables on the dependent variable is of 95% confidence level. The criteria for the decision to reject the null hypothesis are to look at p-value. If the p-value is less than 0.05, H0 is rejected.

4. DATA ANALYSIS AND DISCUSSION

Sample Description

With purposive sampling, 61 samples were obtained by the number of companies that is 485 firms in the year observations with the number as seen in Table 1. The sample can also be classified based on each of manufacturers as as seen in Table 2.

As presented on the type of manufacturing (Table 2), it can be concluded that the majority of

the sample firms are from the basic industries and chemicals. The percentage of companies included in the industry amounted to 33% of the total 61 companies, while the processing of agricultural products 13%, 8% processing mining, heavy industry 28%, and the food industry by 18%.

As seen on Table 3, it can be concluded that the largest percentage of the sample firms is 49% have tenure for 9 consecutive years, 6 consecutive years by 15%, 7 consecutive years by 25%, and 8 consecutive years by 11 %.

Descriptive Statistics

As on Table 4, there are 485 observations for all variables of independent, dependent or control. For ABDAC variable has a maximum value 2.3505 and 0.0006 with a minimum average value of 0.356084 and a standard deviation of 0.4485970 and has a value of 0.201 variants. Tenure variable has a maximum value of 9 and 1 with a minimum average value of 4.56 and a standard deviation of 2.413 and 5.821 have the variant. The assets variable has a maximum value of 31.4870 and 13.0712 with a minimum average value and standard deviation 23.857961 4.9254851 and has a value of 24 260 variants. DEBT variable has a maximum value of 5.1512 and 0.0065 with a minimum average value of 0.621323 and a standard deviation of 0.4460235 and has a variance value of 0.199.

Classical Assumptions Testing

Test results show that the classical assumption of the model satisfy the classical assumptions. The results of the correlation between variables did not seem correlations among the independent variables with the highest level of correlation between vari-

Table 3
Sample Distribution by Tenure

Tenure	Total	Percent
6 consecutive years	9	15%
7 consecutive years	15	25%
8 consecutive years	7	11%
9 consecutive years	30	49%
Amount	61	100%

Table 4
Descriptive Statistics of Variables

Variables	N	Minimum	Maximum	Mean	Std. Deviation	Variance
ABDAC	485	0.0006	2.3505	0.3561	0.4486	0.201
Tenure	485	1	9	4.5600	2.4130	5.821
Assets	485	13.0712	31.487	23.8580	4.9255	24.26
Debt	485	0.0065	5.1512	0.6213	0.4460	0.199
Audtype	485	0	1	0.8000	0.4040	0.163
Valid N	485					

Table 5
Statistical Testing Result

Model	Unstd. Coefficients		Std. Coefficients	T	Sig.	95.0% Confidence Interval for B	
	B	Std. Error	Beta			Lower Bound	Upper Bound
1	.417	.115		3.619	.000	.190	.643
(Constant)	.001	.008	.004	.084	.933	-.015	.016
Tenure	-.002	.004	-.025	-.584	.560	-.010	.005
Assets	.288	.044	.283	6.546	.000	.202	.375
Debt	.288	.044	.283	6.546	.000	.202	.375
Audtype	-.235	.048	-.211	-4.848	.000	-.330	-.139

a. Dependent Variable: ABDAC

ables is 0.155405 which is between the audtype variables with the assets variable, where the value 0.155405 is still far below 0.95. VIF calculation results also show the same thing no one independent variable that has a VIF value greater than 10. Therefore, there is no multicollinearity between the independent variables in the regression model of this study.

Hypothesis Testing Results

Statistical test showed the value of Adjusted R square of 0.133 which means that 13.3% of the variation ABDAC is explained by tenure, assets, DER, audtype and 86.7% is explained by other variables outside the model. The statistical test performed to determine the effect of independent variables individually against the dependent variable, as shown in table 5 as follows.

Table 5 shows the tenure has a significant value of 0.933 greater than α 0.05. Therefore, the tenure is not significantly effect to ABDAC, the null hypothesis can not be rejected. These results showed no effect between audit firm tenure with audit quality, and this study is consistent with re-

search conducted by Carey and Simnett (2006) and is consistent with research conducted by Myers et al. (2003), Gosh and Moon (2005), Meutia (2004), Davis et al. (2009), Johnson et al. (2002). Furthermore, to control variables show that debt and audtype have significantly effect to ABDAC with a significance value of 0.000 respectively, the assets is not significantly ABDAC with a significance value of 0.56.

For the debt variable, it is consistent with research conducted by Siregar and Utama (2006), so that the results of this study support the debt covenant hypothesis where company tend to record the accrual of a greater to qualify of debt. Further to audtype variable, consistent with research conducted by Davis et al. (2009), Gosh and Moon (2005), Myers, et al. (2003), where the audit firm size has a significantly negative correlation to the level ABDAC. Therefore, companies audited by large audit firms tend to have a lower level ABDAC. In contrast, the assets have no effect on the level ABDAC. These results are consistent with research conducted by Martani and Wijaya (2011).

5. CONCLUSION, IMPLICATION, SUGGESTION, AND LIMITATION

The closeness of the relationship between the auditors and the client in the long run should be a concern, especially for regulators. In addition, auditors are required to maintain its independence for audit quality is maintained. The rules on auditor rotation should reflect that at some point the relationship between auditor-client can truly reflect the actual rotation, not an artificial rotation.

The length of the relationship between auditor-client can reduce the independence of the auditor. If the two parties in dealing intensively which may cause some effects that lead to each other, know each other and with this it is feared will decrease the level of auditor independence. Auditor should detect the cause of the poor quality of financial reporting, but the auditor will only seek to secure the practice because it is known familiarly and good friends.

For that reason, the rotation of the audit is expected to maintain audit quality by limiting the tenure of the auditor by the client. Audit quality is shown by the magnitude of discretionary accruals included in the audited financial statements. Statistical test results showed that the significant level of 0.933 greater than 0.05. This study is not enough statistically evidence to reject H0. Therefore, the results of this study indicate that tenure is not statistically effect to audit quality.

This study examines the audit quality as measured by the level of discretionary accruals, although there are still many other audit quality measures, for example relating to litigation, going concern opinion. In addition, the use of secondary data in this study was found to have limitations in the period of observation and the limited amount of data. For the next research, it can relate phenomena artificially rotation to other audit quality, for example fraud and the propensity of auditor to issue a going concern opinion.

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